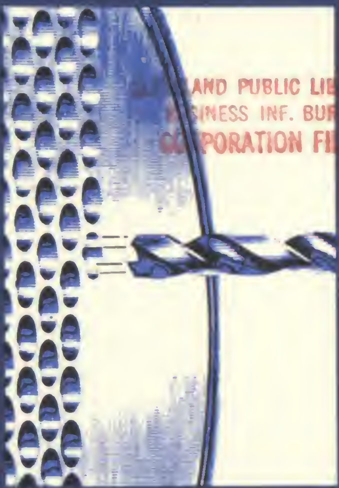
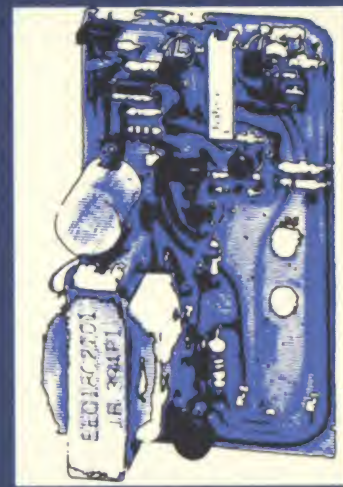






Acme-Cleveland Corporation 1971 Annual Report

Financial highlights

	Year Ended September 30	
	1971	**1970**
Net Sales	$81,358,000	$104,631,000
(Loss) Earnings before Income Taxes	(1,008,000)	9,104,000
Income Taxes	(430,000)	4,570,000
Net (Loss) Earnings	(578,000)	5,221,000*
Net (Loss) Earnings per Share	(0.15)	1.36*
Dividends per Share	.80	1.30

**Includes extraordinary credits of $687,000 or $0.18 per share.*

Sales breakdown 1971

Report to shareholders

For the economy as a whole the 1970 recession came to an end in the fourth quarter of that year. Since then, business activity has been climbing, slowly and painfully. In the industrial area the pattern of this expansion has been significantly influenced by the rush to make up the automobile production lost during the General Motors strike, then by the rush to hedge against a possible steel strike, and finally by the lull required to work off the excessive steel stocks built up during the previous period. At the latest reading, industrial production was only 3½ percent above its General Motors-strike-induced recession low. It has not regained its pre-strike level, and two years after its previous cyclical high is still 5 percent below that high.

1971 has seen relatively high unemployment, a growing adverse balance in our international payments, continuing price inflation, a further drop in government purchasing for defense projects, and continuing large deficit spending by federal, state and local governments. The manufacturing sector is operating at only 73 percent of capacity, and as a consequence, orders for capital equipment continue at a low rate.

This was the background against which the President announced his New Economic Program effective August 15th. The immediate reaction was one of considerable enthusiasm; but as Phase I wore on and Phase II unfolds with its rules, regulations and appointed government bodies, the enthusiasm is being replaced by caution in many areas. Wall Street reflects this attitude, which we also share.

Controls are not a lasting substitute for a market economy. Controls attack the symptoms of economic imbalance. They do not attack the fundamental causes of these imbalances. Essentially a period of controls provides a breathing space during which to attack the basic problems. We see no lasting prosperity in our country until these problems are forthrightly attacked and corrected. We are concerned that amidst all the controversy and debate on the subject of controls, there is little mention of the need to approach these basic problems.

Four basic problems face our country—the inordinate power of labor to demand and secure economically unsound wage and benefit increases; the continued legislation of programs—by all levels of government—without adequate thought as to how they will be financed; a growing bias in our tax laws in favor of consumption over investment, seemingly disregarding the fact that only through investment can the real level of consumption be raised; and finally, the need to restructure international monetary and trading relationships.

Our Congress has the major responsibility for correcting the first three problems and for fostering the kind of domestic economy that will enable our country to remain a viable competitor on the international scene once the needed restructuring of international monetary and trading relationships is achieved.

This was also the background against which our Corporation operated during the past fiscal year. Our total revenues declined from $106,500,184 in fiscal 1970 to $83,249,676 in fiscal 1971. Net earnings deteriorated from $5,220,766 to a net loss of $577,559. This represents a decline from earnings of

$1.36 a share to a loss of $.15 a share. Four dividends of $.20 each were paid during the 1971 fiscal year. It is interesting to observe the trend in pretax earnings during this period:

1st Quarter	(October through December)	($3,724,034)
2nd Quarter	(January through March)	$ 697,604
3rd Quarter	(April through June)	$ 696,882
4th Quarter	(July through September)	$1,321,989

It was this trend which gave our Directors courage to declare dividends in the face of a loss year. A strike which closed down National Acme operations in Cleveland for 13 weeks, a still longer strike in our Detroit pattern-making facilities, low prices in the cutting tool field and the snail's pace in orders for capital equipment all conspired to make this our worst year in several decades.

Capital is one of the scarcest commodities in the world. That is why the most important single responsibility of any Chief Executive Officer is to do what he can to protect and to enhance the capital which is entrusted to him. If he fails to do so, the company will slide downhill. Before long its jobs become fewer and less rewarding; it pays less and less in taxes; it must turn into a poor corporate citizen; it loses stockholder support; unless profitable operations are reestablished, it will sooner or later go down the drain.

When a fine company with a long history of profitable operations loses money, it is time to ask some hard questions. Is the management team continuing to provide the necessary leadership? Has the community in which the company is located changed? Have the costs of doing business there increased so greatly that the company can no longer compete satisfactorily from that location? Are the company's products obsolescent? These are all fair questions, and I can assure you that a good deal of thought has been given to their answers.

Capital is scarce. Companies must have competent leadership. The heaviest responsibility on any Board of Directors is to assure a continuation of able management. I am sure your Board is quite aware of this responsibility and is alert to the necessity of maintaining a competent management team.

Capital is scarce. It is also mobile. In our business the old adage "Don't put all your eggs in one basket" is just as applicable to land and equipment as it is to eggs. After considerable study we recently sold two parcels of land in this community which were acquired for possible expansion here. Many of our competitors are located in communities with lower costs of doing business, and we cannot afford avoidable disadvantages.

Capital is scarce. It has the right to expect fair treatment. For many years we have tried to provide employee benefits and to pay wages and salaries somewhat above the going rate for similar occupations in the areas where our plants are located. We expect to continue this policy, for we are eager to attract superior people. However, we are unwilling to put our company at a competitive disadvantage by caving in to excessive wage and employee benefit demands. We are determined to get a fair day's work for a fair day's pay, and we took strikes this past year, both in Cleveland and in Detroit, in defense of this conviction. We hasten to add that the strikes were not the whole story of our loss by a long shot. Because of the recession in capital equipment and because of fiercely competitive prices in the cutting tool field, the demand for our products and the revenues we received for them were off sharply.

Capital is scarce. We have invested many millions of dollars in highly efficient equipment for use by our skilled employees. We devote much design and engineering effort to keeping our products and processes up to date and, where possible, ahead of the parade. We are confident that there will be a worthwhile, continuing demand for our products as far into the future as we can look.

We believe that the honeymoon is over for American industry. All too often costs were allowed to get out of hand during the years when there was no effective competition from abroad to discipline American industry and when the demand for most products was far greater than the supply of them. Now we have tough foreign competitors whose factories are filled with new equipment and the latest in technology. Their numbers grow daily. They are cool and calculating and swift. It will take the very best efforts of business, labor and government all working hard and intelligently and harmoniously together to recapture the prosperity which, as a nation, we have allowed to slip through our fingers.

As we start our new fiscal year, prices for cutting tools have strengthened somewhat, and the demand for them has increased. Incoming orders for our Shalco products have increased and the future looks encouraging. This holds true in our Namco Controls Division as well. Incoming orders for machine tools have also improved, but still remain at a very disappointing level. We are hopeful that once the uncertainty about the investment tax credit has been resolved, orders will increase markedly. We expect no miracles in 1972, but we do expect our earnings trend to improve throughout the year, and we expect 1973 to be a good year for us.

Mr. Raymond Channock retired April 1, 1971 in accordance with our retirement plan, but I am glad to say that his experience and judgment are still available to us in his new capacity as a consultant to the Corporation. Mr. Charles Clark was elected President and General Manager of the National Acme Division, and we are already confident that it's in able hands. Finally, this report would not be complete without my special thanks to the thousands of Acme-Cleveland employees who, with quiet determination, helped us through this very difficult period.

Arthur S. Armstrong

Chairman of the Board
and President

Cleveland, Ohio
December 6, 1971

Review of operations

During the past fiscal year Acme-Cleveland further strengthened its operating structure and sharpened the organization's effectiveness as an international supplier of production tools and systems for industry—with the goal of greatly improved sales and earnings.

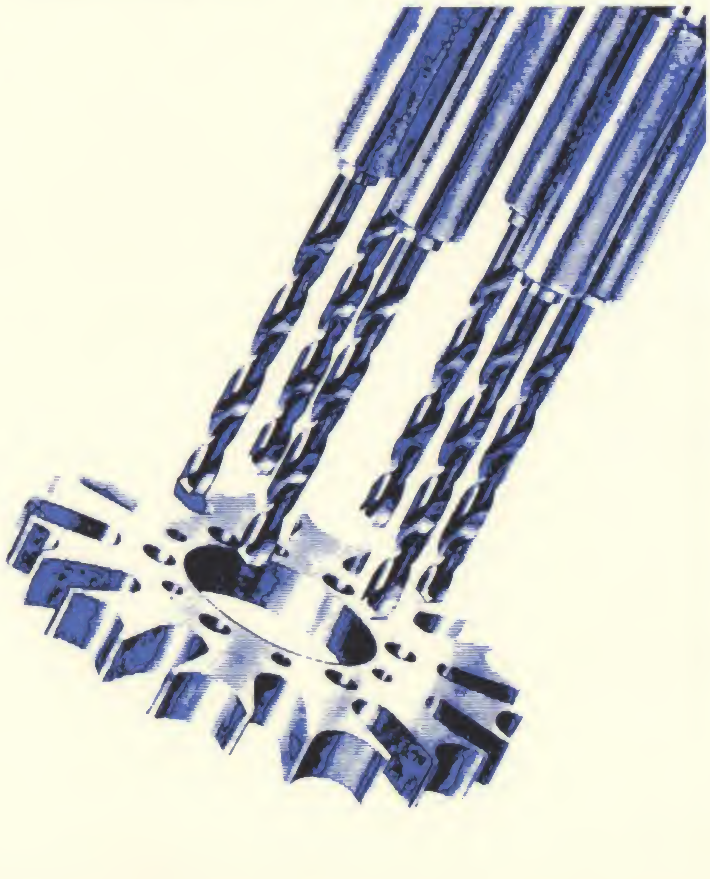
A new operational structure
Two steps essential to complete coordination of all parts of the Corporation were taken. The first was to reorganize the corporate structure into four separate operating units which will function as independent profit and growth centers. The second step was to consolidate a number of administrative and planning functions at the corporate level. This consolidation will provide stronger corporate support to each of the operating units and should enable the managers of these operating units to concentrate on their primary job of producing and selling products at a profit. The four corporate operating units are now identified as the Cleveland Twist Drill Company, National Acme Division, Shalco Systems Division and Namco Controls Division.

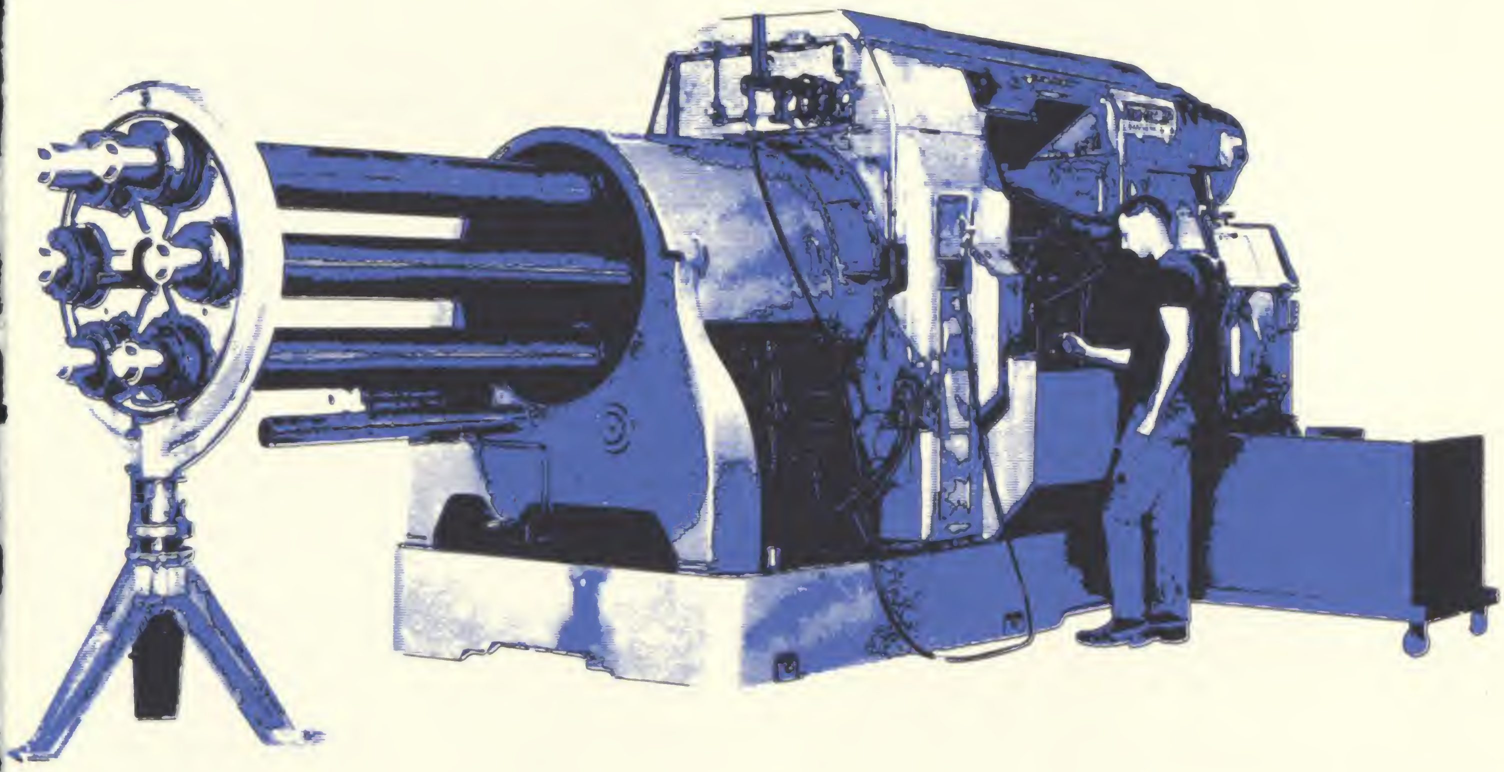
Range of markets
The marketplace for machines, cutting and threading tools, foundry systems and controls produced by Acme-Cleveland units is everywhere, limited only by varying degrees of industrialization throughout the world. Transportation—the building of passenger cars, trucks, aircraft, railway and marine carriers; the construction industry—off-the-road equipment, highways and buildings; household appliances, communications, computerization, recreation, health care and pollution control are among the many fields involving production by manufacturers using Acme-Cleveland products and systems.

Cleveland Twist Drill Company

Last year Cleveland Twist Drill marketed over 40,000 sizes and types of drills, reamers, end mills, taps, dies and other cutting and threading tools across the full range of the metalworking market. Total dollar volume dropped below that of 1970 due to the lower level of manufacturing activity in the United States and Canada, and because of depressed prices for many cutting and threading tool products. However, some domestic product lines, notably threading tools, showed sales gains, and revenues from exports and items produced abroad were second only to the record performance of 1970.

New products were introduced to a number of major markets last year. Among these were thread-cutting die heads capable of making heavier cuts and producing coarser pitches for mass-produced plumbing fittings, a specialized sheeter's drill for metal fabrication and construction in the field, and special length coolant-hole





drills for use on heat exchangers and other tube sheet products.

Coolant-hole drills are included in the broadened line of Cleveland special tools that are available on a fast-delivery basis. Emphasis on fast-delivery special tools, both cutting and threading types made to order, has resulted in significantly increased sales of these products.

Cleveland Twist Drill's new central distribution center was set up and began full operation in fiscal 1971. Located close to Cleveland Hopkins International Airport, the center employs a video data terminal order entry system in conjunction with cassette data transmission, computer-linked conveyorized stock picking and other advanced techniques for order entry and inventory. The result is a unique program that is proving successful in reducing costs, improving the efficiency of the central warehouse, and further increasing the effectiveness of Cleveland Twist Drill's service to customers.

The new techniques employed within the central distribution center and between the center and its regional stockrooms were an important factor in eliminating the need for the Los Angeles stockroom. All West Coast orders are being promptly handled from the San Francisco stockroom as a consolidated operation.

National Acme Division

National Acme Division's efforts during the machine tool industry's current low period concentrated on product improvement and expanded services to assist customers in increasing their productivity and reducing costs.

The division's principal new product was a six-spindle chucking machine of 6⅜-inch workpiece capacity to fill in the line between the 5¼ and 8-inch machines. An advanced concept in thread tooling led to new proprietary equipment designed by the division's special machines group for combined thread cutting and rolling. It features hydraulic control for precision placement of the die head to assure uniform leads on the threads produced.

National Acme's programs in computer-assisted tool design were extended to provide additional liaison with customers, whose engineers can communicate with a central computer through telephone tie-ins. Using numerical code, customers are able to call in the required end-product shapes for immediate conversion into the tooling configurations that are needed. The results are savings in the design and testing of tooling at National Acme and lower per-piece production cost for customers.

The drop in domestic orders for new machines has accentuated the importance of National Acme's increasing export volume and of production by licensees abroad. Equally significant is National Acme's volume of replacement parts, a segment of the business comparatively free of cyclical swings. Handling of parts orders was improved last year with revamped order entry systems and computerized inventory management.

Shalco Systems Division

The expansion of Shalco's foundry equipment lines now makes possible a total systems approach to the metal casting market in the U.S. and abroad. Beyond individual pieces of equipment, the Shalco Systems division has geared itself to deliver complete foundry operations in turnkey projects. Shalco's base for a systems approach is its proprietary machinery and the related tooling for molds supplied by Automotive Pattern, a Shalco subsidiary.

New products developed by Shalco last year include a continuous gyro-type mixer that will work with the sand coating machinery and deliver a variety of molding sands to dialed-in specifications. Shalco is also producing a new fully automatic general-purpose coreblower and a larger coreblower with modular design for the automotive industry. A high-capacity shell core machine with fully automatic indexing and unloading is ready for the market. And for foundry finishing operations, Shalco has developed a unique unit that solves a serious cleaning problem for the inner recesses of castings with complex shapes.

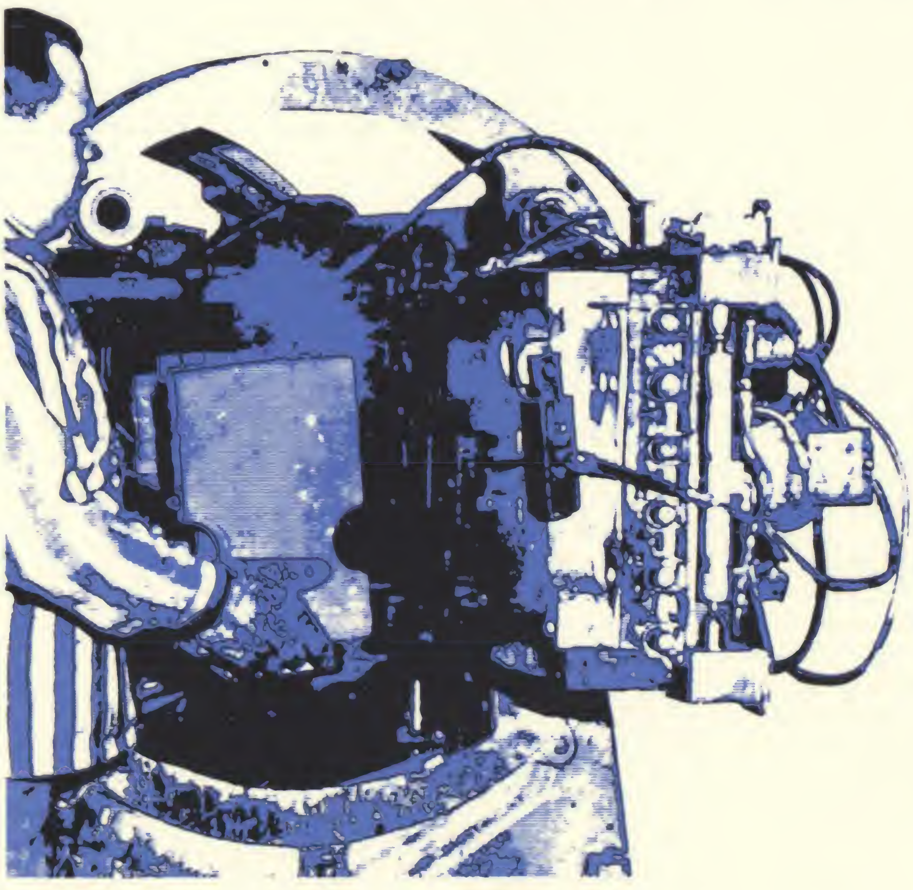
Namco Controls Division

Namco Controls, formerly National Acme's Electrical Controls division, became Acme-Cleveland's fourth operating unit in 1971. Beyond machine tool applications, markets in which Namco is working include power generation, marine, appliances, office machinery, assembly and packaging.

Namco's product development program has included extensive redesign and additions within the division's lines of solenoids, limit and proximity switches. Newly developed solenoids, for example, provide the makers of vending machines, copiers and similar equipment with industrial-grade units that are quieter and more efficient than those previously available.

Limit switch development work focused on a new series for shipboard material handling, offshore drilling, chemical plants and other applications where corrosion and wide temperature ranges are factors.

Namco has added a new "Maglock" series to its line of proximity switches. These switches are activated by the interruption of a magnetic field, established either by the ferrous content of the material being processed or by external magnetic targets. Other switches in the line employ interrupted radio frequencies for sensing.



International Operations

Acme-Cleveland revenues from outside the U.S. amounted to more than 26 percent of the total in 1971. Additionally, since 1966, the Corporation's investment in operations abroad has risen by 65 percent, so that foreign investment now represents 14 percent of corporate net worth. Revenues from abroad have risen in proportion, as indicated in the graph and table.

Through the Corporation's production and distribution facilities and the efforts of licensees and agents, Acme-Cleveland products were sold in some 75 countries last year.

Shalco has completed manufacturing agreements with Acme-Cleveland's German licensee for the production of the two new coreblower machines developed in 1971.

Through Shalco's own foreign trade promotion, sales have increased in major West European markets and entry has been made into a number of industrial centers within the Eastern Bloc.

Cleveland Twist Drill Limited, operating two plants in Scotland, posted its highest volume in cutting tool exports last year. Furthermore, it has the strong support of manufacturing and warehousing facilities recently established at Cleveland Twist Drill Nederland N. V. in Maastricht, Holland. Originally planned as a source for special tooling, the Maastricht operation is broadening its line with manufacture of certain regular Cleveland Twist Drill products.

Cleveland Twist Drill Canada Ltd. gained increased penetration of the Canadian market for fast-delivery special threading tools, in spite of a general downturn in manufacturing activity in Canada.

Herramientas Cleveland S.A. reported 20 percent higher sales for 1971. Cleveland Twist Drill's Mexican subsidiary was established in 1966 to manufacture cutting tools for Latin American markets. It has enlarged its facilities for the production of special tools and has, in addition, introduced wire drills, tool bits and other standard product lines.

Product line expansion is one of the elements common to all of Acme-Cleveland's operations abroad. Another is modern, readily expandable plants. Engineering and production experience gained abroad covers the complete range of standards and specifications required in international commerce. Perhaps most important, these operations are well established geographically to grow in world markets.

Acme-Cleveland revenues obtained outside the U.S.A.

	Total Revenues (thousands)	Revenues Outside U.S.A. (thousands)	Revenues Outside U.S.A. as % of Total
1968	$110,856	$12,247	11.0
1969	111,582	14,828	13.3
1970	106,500	23,855	22.4
1971	83,250	22,089	26.5

Ten year summary

ACME-CLEVELAND CORPORATION AND SUBSIDIARIES

Sales and Earnings	1971	1970	1969
Net Sales	$81,358,419	$104,631,272	$109,827,768
Earnings (Loss) Before Taxes	(1,007,559)	9,103,766	16,207,859
Federal and Foreign Taxes on Income	(430,000)	4,570,000	8,290,000
Net Earnings (Loss)	(577,559)	5,220,766*	7,917,859
Net Earnings to Net Sales	—	5.0%*	7.2%
Earnings (Loss) per Share	(.15)	1.36*	2.05
Dividends Paid	3,075,626	4,996,552	5,949,069
Other Financial Information			
Current Assets	$58,544,616	$ 61,186,389	$ 58,449,567
Current Liabilities	11,164,606	14,014,431	20,194,447
Working Capital	47,380,010	47,171,958	38,255,120
Shareholders' Equity (Net Worth)	63,499,104	67,147,289	66,909,765
Shareholders' Equity per Share	16.52	17.47	17.41
Property, Plant and Equipment—Net	29,295,784	30,052,809	27,731,116
Capital Additions	2,666,573	5,422,425	5,681,331
Depreciation	3,044,998	2,930,853	3,051,725
General Information			
Average Number of Shares Outstanding	3,844,547	3,843,427	3,853,801
Number of Shareholders	7,946	8,033	8,097
Number of Employees—Year-End	4,759	5,451	5,402

**Includes extraordinary credits of $687,000 or $.18 per share.*

The 1969 figures are for the 12 months ended September 30, which includes the transitional 3-month period ending December 31, 1968, which was previously reported. All figures in this report are combined to reflect the merger of The Cleveland Twist Drill Company and National Acme Company in 1968 on a pooling of interests basis. The 1968 figures are for the 12 months ended December 31. Figures for 1967 and prior years are the result of combining the 12 months ended December 31, for National Acme Company with the 12 months ended September 30, for The Cleveland Twist Drill Company.

1968	1967	1966	1965	1964	1963	1962
$109,390,676	$108,470,330	$106,046,914	$85,845,324	$71,939,581	$62,447,516	$62,889,314
17,629,824	17,304,475	19,861,715	14,707,327	10,964,678	9,143,806	9,000,324
8,779,382	8,002,167	9,177,619	6,749,635	5,040,000	4,652,000	4,576,100
8,850,442	8,997,963	10,684,096	7,957,692	5,924,678	4,491,806	4,424,224
8.1%	8.3%	10.1%	9.3%	8.2%	7.2%	7.0%
2.22	2.25	2.67	2.01	1.51	1.15	1.13
4,941,590	4,514,617	5,994,599	5,087,693	3,450,188	2,815,717	2,267,872
$ 58,726,106	$ 58,532,750	$ 57,996,777	$52,980,417	$48,876,201	$46,331,922	$43,942,719
23,612,285	16,412,771	16,383,332	10,449,038	8,897,053	8,458,586	8,125,775
35,113,821	42,119,979	41,613,445	42,531,379	39,979,148	37,873,336	35,816,944
64,801,836	66,403,215	61,545,446	56,802,355	53,468,477	50,830,193	49,076,900
16.91	16.57	15.41	14.34	13.65	13.02	12.57
25,886,891	22,999,108	18,462,677	13,731,357	12,399,017	12,174,116	12,477,429
6,468,505	6,517,241	6,712,255	3,740,508	2,209,154	1,743,344	1,644,144
3,276,479	2,827,291	2,278,132	2,260,767	2,060,937	2,038,064	1,992,137
3,983,985	4,004,908	3,994,938	3,960,358	3,917,470	3,902,794	3,903,332
6,883	6,979	6,697	6,187	5,534	5,471	5,492
5,414	5,383	5,121	4,598	4,214	3,854	3,850

Statement of consolidated earnings

ACME-CLEVELAND CORPORATION AND SUBSIDIARIES

	Year Ended September 30	
	1971	**1970**
Net sales	$81,358,419	$104,631,272
Other income	1,891,257	1,868,912
Total Revenues	83,249,676	106,500,184
Costs and expenses:		
Cost of products sold	59,901,564	72,123,075
Selling, administrative and general expenses	19,836,252	21,138,506
Depreciation—Note D	3,044,998	2,930,853
Interest	1,069,608	925,913
Other	404,813	278,071
	84,257,235	97,396,418
(Loss) Earnings Before Income Taxes and Extraordinary Credits	(1,007,559)	9,103,766
Federal and foreign income taxes:		
(Carryback refund)—currently payable	(833,000)	3,863,000
Foreign currently payable	164,000	208,200
Deferred—Note D	239,000	498,800
	(430,000)	4,570,000
(Loss) Earnings Before Extraordinary Credits	(577,559)	4,533,766
Extraordinary credits	-0-	687,000
Net (Loss) Earnings	$(577,559)	$ 5,220,766
Per Common Share:		
(Loss) earnings before extraordinary credits	$(.15)	$1.18
Extraordinary credits	-0-	.18
Net (loss) earnings	$(.15)	$1.36

See notes to consolidated financial statements.

Statement of consolidated financial position

ACME-CLEVELAND CORPORATION AND SUBSIDIARIES

	September 30 1971	1970
Current Assets		
Cash	$ 3,600,351	$ 2,121,428
Marketable securities—at approximate market	220,299	1,140,474
Trade accounts and notes receivable:		
Accounts	13,250,431	13,332,377
Notes and installment contracts including amounts due beyond one year (1971—$1,632,188; 1970—$2,295,464)	3,311,193	5,032,519
	16,561,624	18,364,896
Refundable federal income tax	833,000	-0-
Inventories—Note B:		
Work in process and finished products	32,083,627	34,269,946
Raw materials and supplies	5,245,715	5,289,645
	37,329,342	39,559,591
Total Current Assets	58,544,616	61,186,389
Less Current Liabilities		
Notes payable to banks	683,292	1,178,387
Notes payable to employees	1,210,930	1,281,120
Accounts payable and accrued expenses	5,714,703	6,231,639
Salaries, wages, other compensation and payroll taxes	3,149,636	4,320,978
Federal and foreign income taxes	406,045	1,002,307
Total Current Liabilities	11,164,606	14,014,431
Working Capital	47,380,010	47,171,958
Property, Plant and Equipment— on the basis of cost		
Land	2,539,777	2,480,777
Buildings	16,952,848	16,039,782
Machinery and equipment	43,862,675	43,665,745
	63,355,300	62,186,304
Less allowances for depreciation	34,059,516	32,133,495
	29,295,784	30,052,809
Other Assets	2,180,510	2,613,322
	78,856,304	79,838,089
Long-Term Liabilities		
Long-term debt — Note C	14,288,400	11,861,000
Deferred federal income taxes — Note D	1,068,800	829,800
	15,357,200	12,690,800
Net Assets—Representing Shareholders' Equity	$63,499,104	$67,147,289
Shareholders' Equity		
Serial Preferred Shares, without par value:		
Authorized — 1,000,000 shares — none issued		
Common Shares, par value $1 per share—Note E:		
Authorized—10,000,000 shares		
Issued and outstanding—3,844,732 shares (1970—3,843,932 shares)	$ 3,844,732	$ 3,843,932
Other capital	3,293,774	3,289,574
Retained earnings — Note C	56,360,598	60,013,783
	$63,499,104	$67,147,289

See notes to consolidated financial statements.

Statement of changes in consolidated financial position

ACME-CLEVELAND CORPORATION AND SUBSIDIARIES

	Year Ended September 30	
	1971	**1970**
Source of Funds		
From operations:		
Net (loss) earnings for the year	$(577,559)	$ 5,220,766
Depreciation	3,044,998	2,930,853
Deferred federal income taxes	239,000	498,800
Total from Operations	2,706,439	8,650,419
Sale of Common Shares under Option Plan	5,000	13,310
Long-term debt	2,427,400	11,059,000
Other	811,412	(438,931)
	5,950,251	19,283,798
Application of Funds		
Dividends paid	3,075,626	4,996,552
Additions to property, plant and equipment	2,666,573	5,370,408
	5,742,199	10,366,960
Increase in Working Capital	$ 208,052	$ 8,916,838
Changes in the Components of Working Capital		
Current assets—increase (decrease)		
Cash	$ 1,478,923	$ 652,879
Marketable securities	(920,175)	(415,229)
Trade notes and accounts receivable	(1,803,272)	(2,455,533)
Refundable federal income tax	833,000	-0-
Inventories	(2,230,249)	4,954,705
Current liabilities—(increase) decrease		
Notes payable to banks	495,095	4,396,640
Notes payable to employees	70,190	205,030
Accounts payable and accrued expenses	516,936	(22,109)
Salaries, wages, other compensation and payroll taxes	1,171,342	1,412,363
Federal and foreign income taxes	596,262	188,092
Increase in Working Capital	$ 208,052	$ 8,916,838

See notes to consolidated financial statements.

Statement of consolidated shareholders' equity
ACME-CLEVELAND CORPORATION AND SUBSIDIARIES

	Common Shares		Other Capital	Retained Earnings	Total
	Shares	Amount			
Balance at October 1, 1969	3,842,172	$3,842,172	$3,278,024	$59,789,569	$66,909,765
Net earnings for the year ended September 30, 1970				5,220,766	5,220,766
Cash dividends, quarterly at $.35 a share through third quarter and $.25 for the fourth quarter				(4,996,552)	(4,996,552)
Sale of Common Shares under Option Plan	1,760	1,760	11,550		13,310
Balance at September 30, 1970	3,843,932	3,843,932	3,289,574	60,013,783	67,147,289
Net loss for the year ended September 30, 1971				(577,559)	(577,559)
Cash dividends, quarterly at $.20 a share				(3,075,626)	(3,075,626)
Sale of Common Shares under Option Plan	800	800	4,200		5,000
Balance at September 30, 1971	3,844,732	$3,844,732	$3,293,774	$56,360,598	$63,499,104

See notes to consolidated financial statements.

Notes to consolidated financial statements
ACME-CLEVELAND CORPORATION AND SUBSIDIARIES
September 30, 1971

Note A—Principles of Consolidation
The consolidated financial statements include the accounts of the Corporation and all of its subsidiaries. The accounts of foreign subsidiaries have been translated at appropriate rates of exchange and the resulting gains or losses (which are not material in amount) are reflected in operations. The net assets of the foreign subsidiaries approximated $8,918,000 at September 30, 1971.

Note B—Inventories
Inventories are priced at cost (principally last-in, first-out method of determination) not in excess of replacement market. Such valuations were less than replacement cost of the inventories by approximately $9,997,000 at September 30, 1971 and $9,048,000 at September 30, 1970.

Note C—Long-term Debt

	September 30	
	1971	1970
Liability to banks under revolving credit agreement	$12,800,000	$11,150,000
Various debt arrangements of foreign subsidiaries maturing at various dates to 1981 and bearing interest at rates of 6¼ % to 7¼ %	1,138,400	336,000
Other notes payable at various dates to 1974 and bearing interest at the rate of 6%	350,000	375,000
	$14,288,400	$11,861,000

Under a revolving credit agreement with a group of banks which terminates September 30, 1973, the Corporation may borrow,

Auditors' report

Note C—Long-term Debt (Continued)
at the prime interest rate then in effect, up to $15,000,000. A commitment fee is also payable quarterly at the rate of ½% per annum on the average daily amount of the unborrowed portion of the $15,000,000. The Corporation may elect to convert each bank's revolving credit to a term loan, which is repayable in sixteen equal quarterly installments beginning 90 days after such conversion. The credit agreement contains restrictive covenants, certain of which cover the maintenance of working capital and limit capital distributions (as defined) including the payment of cash dividends. Retained earnings of approximately $1,247,000 are available for the payment of cash dividends.

Note D—Depreciation
Deferred federal income taxes result from timing differences arising principally from using accelerated methods of depreciation for tax purposes and the straight-line method for accounting purposes.

Note E—Stock Options
Stock option plans authorize the issuance of Common Shares to key employees at not less than the market price on dates of grant. The options become exercisable over a period of five years, beginning one year after date of grant. A summary of the changes in outstanding stock options and the number of shares reserved for future options is as follows:

	Options Outstanding		Shares
	Total Option Price	Number of Shares	Reserved For Future Options
Balance at October 1, 1970	$2,369,118	104,036	111,980
Exercised	(5,000)	(800)	
Cancelled or expired	(782,837)	(36,486)	(7,930)
Balance at September 30, 1971	$1,581,281	66,750	104,050
Exercisable at September 30, 1971	$ 691,420	29,087	

Note F—Pensions
The companies have several pension plans covering substantially all employees. The total pension expense for the year was approximately $1,373,000 which includes amortization of prior service cost. The companies' policy is to fund pension cost accrued. The actuarially computed value of vested benefits for certain plans as of their respective anniversary dates exceeded their pension funds by approximately $4,089,000. A change during the year in actuarial assumptions used in computing pension cost had the effect of reducing the net loss for the year by approximately $224,000 ($.06 per share).

Board of Directors
Acme-Cleveland Corporation
Cleveland, Ohio

We have examined the statement of consolidated financial position of Acme-Cleveland Corporation and subsidiaries as of September 30, 1971, and the related statements of consolidated earnings, shareholders' equity, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made a similar examination of the financial statements for the preceding year.

In our opinion, the accompanying statements identified above present fairly the consolidated financial position of Acme-Cleveland Corporation and subsidiaries at September 30, 1971, and the consolidated results of their operations, and changes in shareholders' equity and financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST

Cleveland, Ohio
November 19, 1971

Acme-Cleveland Corporation and Subsidiaries

Board of Directors

Arthur S. Armstrong
Chairman of the Board and President

Ralph M. Besse
Partner—Squire, Sanders & Dempsey

Carleton Blunt
Counsel to Bell, Boyd, Lloyd, Haddad & Burns, Chicago

Raymond E. Channock
Consultant and formerly President, Acme-Cleveland Corporation

Charles W. Clark
Vice President

W. Paul Cooper
Vice President

Stephen M. DuBrul, Jr.
Partner—Lehman Brothers New York

Robert C. Ochs
Director of Engineering, Truck Components Group, Eaton Corporation

Jacob B. Perkins
President, The Hill Acme Company

John S. Prescott
Retired; formerly Senior Vice President, The Sherwin-Williams Company

Karl H. Rudolph
President, The Cleveland Electric Illuminating Company

Earl P. Schneider
Partner—Thompson, Hine & Flory

John C. Stites
Special Assistant to the Chairman of the Board

Arthur O. Willey
Retired; formerly Chairman of the Board, The Lubrizol Corporation

Annual meeting of shareholders

The annual meeting will be held on January 27, 1972. Shareholders of record on December 10, 1971 will be entitled to vote. The notice, proxy statement and proxy will be mailed to shareholders on or about December 28, 1971.

Henry R. Hatch III, Secretary

Officers

Arthur S. Armstrong
Chairman of the Board and President

W. Paul Cooper
Vice President

Charles W. Clark
Vice President

Herbert von Wolff
Vice President

Thomas M. Skove
Treasurer

Henry R. Hatch III
Secretary

Lawrence R. Cowin, Jr.
Controller

Robert W. Gillespie
Assistant Secretary and Assistant Treasurer

James W. Casserly
Assistant Controller

James M. Tompkins
Assistant Controller

General Counsel

Thompson, Hine & Flory, Cleveland

Co-Registrars

The National City Bank of Cleveland

Chemical Bank, New York

Co-Transfer Agents

The Cleveland Trust Company

Bankers Trust Company, New York

Auditors

Ernst & Ernst, Cleveland

Operations

NATIONAL ACME DIVISION

Machine Tools and Special Machines
Cleveland, Ohio

Namco Machinery Limited
Luton, England

Machine Tool Licensees

Herbert—B.S.A. Limited
Birmingham, England

Pittler Maschinenfabrik A.G.
Frankfurt/Main, West Germany

Mitsubishi Heavy Industries, Ltd.
Tokyo, Japan

CLEVELAND TWIST DRILL COMPANY

Cutting and Threading Tools Division
Cleveland, Ohio

Bay State Manufacturing Plant
Mansfield, Massachusetts

Cleveland Twist Drill Canada Ltd.
Rexdale (Toronto), Ontario, Canada

Cleveland Twist Drill Limited
Peterhead and Glasgow, Scotland

Cleveland Twist Drill Nederland N.V.
Maastricht, The Netherlands

Herramientas Cleveland S.A.
Pachuca, Mexico

SHALCO SYSTEMS DIVISION

Foundry Systems and Equipment
Cleveland, Ohio; Kewanee, Illinois; Port Huron, Michigan

Automotive Pattern Company
Detroit, Michigan

NAMCO CONTROLS DIVISION

Electrical Controls
Cleveland and Jefferson, Ohio

Electrical Controls Licensees

Herbert Controls & Instruments, Ltd.
Letchworth, Hertfordshire, England

Fritz Dienes GmbH — Switches Only
Muhlheim, West Germany

PRODUCTION SYSTEMS FOR INDUSTRY

Acme-Cleveland Corporation

P.O. Box 5617 • Cleveland, Ohio 44101

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